

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AQUA ILLINOIS, INC.)	
f/n/a Consumers Illinois Water Company)	
)	Docket No. 04-0527
Petition for the Issuance of a Certificate of)	
Public Convenience and Necessity to Operate)	
a Water Supply and Distribution System in)	
Lake County, Illinois; and for the Issuance of)	
an Order approving Rates, Accounting Entries)	
and Tariff Language.)	

Direct Testimony of

THOMAS J. BUNOSKY

Vice President and Regional Manager of
Aqua Illinois, Inc.

On Behalf of
Aqua Illinois, Inc.

December 17, 2004

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. Thomas J. Bunosky, 1000 South Schuyler Avenue, Kankakee, Illinois, 60901.

Q. By whom are you employed and in what capacity?

A. I am Vice President and Regional Manager of Aqua Illinois, Inc. ("Aqua Illinois" or the "Company").

Q. Please state your educational, professional and business background and experience.

A. I am a graduate of Youngstown State University, Youngstown, Ohio receiving a Bachelor of Science degree in Civil Engineering. I also am a graduate of Baldwin Wallace College, Cleveland, Ohio receiving a Masters of Business Administration. My professional affiliations include the Illinois Section of the American Water Works Association, in which I currently sit on the Water Utility Council. I am also a member of the National Water Works Association's QualServe Program that conducts reviews of peer utilities. My 25 years of water utility experience includes employment from 1978 to 1990 with Ohio Water Service Company (Consumers Ohio Water Company). During those years of employment, I held various positions as Staff Engineer, Staff Accountant, Water Treatment Plant Superintendent and Assistant District Manager of the operations of the Struthers, Ohio facilities. From 1990 to 1997, I was employed by Southern California Water Company in San Dimas, California. Initially, I held the position of Director of Engineering, Water Resources and Construction, in which capacity I was responsible for the Company's capital improvements for all of the 27 operating districts throughout the State of California. In 1993, I assumed the position of Vice President of Operations of the Company's water and electric facilities consisting of 240,000 water

customers and 20,000 electric customers throughout the State of California. These duties included the preparation and implementation of the yearly and long term capital and operating budgets, the rate proceedings preparation and testimony before the California Public Utilities Commission, personnel supervision, and the planning and development of short and long term water resources for each of the 27 operating districts in California. In 1995, under a reorganization of the Company's operations following a California Public Utility Commission Management Audit, I assumed the position of Vice President of the Company's Region 2 Operations consisting of the water operations in the Los Angeles and Orange County areas of Southern California composed of 140,000 customers. In 1997, I assumed my current position of Vice President and Regional Manager of Aqua Illinois.

Q. What are your responsibilities as Vice President and Regional Manager of Aqua Illinois?

A. I have overall responsibility of the day-to-day operations of the Kankakee water, University Park water and wastewater, the Willowbrook water and wastewater, Candlewick water and wastewater, Ivanhoe water and wastewater, Hawthorn Woods water and wastewater, Woodhaven Lakes water and wastewater, and the Oak Run water divisions. I also assist the Company President and other officers in developing goals and objectives for the Company and in administering policies and procedures as approved by the Board of Directors of the Company. It is my responsibility to ensure that these goals and objectives are achieved. I, along with other Company officers, represent the Company before governmental and regulatory agencies. I, again along with others, formulate financial objectives and budgets, and provide the direction necessary to meet those objectives while remaining within budgetary guidelines. I am part of the

management team, which establishes employee levels, working conditions and safety requirements within guidelines established by the Board of Directors and the President of the Company. My responsibilities include establishing guidelines for negotiation of labor contracts with the labor union representing employees in the Kankakee Division as well as other special contracts. I have the responsibilities associated with providing excellent customer service, and developing and controlling the Company's operating and maintenance and capital budgets as well as providing direction in the areas of construction, purchases or other acquisitions, operation, maintenance and protection of all property, facilities and equipment required to maintain water quality standards and continuity of service.

Q. Have you previously testified in regulatory matters?

A. Yes. I have testified in proceedings before the Ohio Public Utilities Commission, the California Public Utility Commission and the Illinois Commerce Commission.

Q. Are you familiar with the property, business and operations of the Ravenna Development Area?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your Direct Testimony in this matter?

A. The purpose of my Direct Testimony is to provide information in support of the Company's Petition.

SERVICE AREA

Q. Has Aqua Illinois been requested to provide water service outside of its presently certificated service areas?

A. Yes. Aqua Illinois has been requested to provide water service to members of the public in a new area and it is that area the Company proposes for certification.

Q. Please describe the area the Company proposes for certification.

A. The area proposed for certification corresponds to a planned community of one-hundred thirty-three homes situated in the Village of Long Grove, Lake County, Illinois called Ravenna (“Ravenna Development” or the “Area”). The Area is fully described in the map and legal description attached to the Company’s Petition as Exhibits B and C, respectively.

Q. Does Aqua Illinois currently own the water system in the Ravenna Development?

A. No. Ravenna is owned and being developed by Concord at Ravenna L.L.C. (“Concord”). Concord intends to convey subdivided lots to homebuilders who will construct homes, and Concord itself may also construct homes, at the Ravenna Development. Pursuant to an Agreement entered into between Aqua Illinois and Concord on February 20, 2004, attached to the Petition as Exhibit A (the “Agreement”), all buildings within the Ravenna Development will be connected to a water system that is to be constructed by Concord and subsequently sold to, and operated and maintained by, Aqua Illinois.

Q. Will all buildings in the Ravenna Development take service from Aqua Illinois?

A. Yes. All buildings located within the Ravenna Development will be connected to the water system and will obtain domestic water service exclusively from Aqua Illinois. The Development was approved by the Village of Long Grove with the understanding that the new homes will be served by the central system.

Q. Will all buildings in the Ravenna Development receive fire protection service from Aqua Illinois?

- A. Yes. Each home is to have an interior fire sprinkling system installed. The \$5.00 per month fire protection charge, set forth in Exhibits E and F to the Petition, is for these fire protection connections. Even though fire hydrants will be located in the development, the hydrants will not have sufficient flow to provide full protection but rather will be used to flush the system. Therefore, each home will have a domestic service separate from the fire line just like commercial buildings in other areas.

Q. Is there any other central water service available in the area?

- A. As this is a new development, a central water system set up to serve the Area does not presently exist. The other systems that are in close proximity to the Ravenna Development either do not have the capacity to serve the additional homes or it would be cost prohibitive to do so. The Hawthorn Woods system, owned and operated by Aqua Illinois, does have the capacity but is located approximately five miles from the Ravenna Development. It is a lower cost to establish a new water source than to construct a new five mile long transmission main.

THE WATER SYSTEM

Q. Please describe the facilities that will comprise the water system.

- A. The system will consist of the assets depicted on the plans and specification set forth in Attachment 2 to the Agreement (the “Plans”) and the major components listed in Attachment 3 to the Agreement, including: (i) a water treatment plant (“Treatment Facilities”); (ii) two hydropneumatic tanks for storage; (iii) a 100 KW generator for standby power; (iv) two permitted production wells; (v) approximately 8,700 feet of eight inch water main, related fittings and appurtenances to transport finished water; (vi) raw water lines from the wells to the Treatment Facilities; (vii) all necessary utilities; (viii) one-hundred thirty-three water service lines running from the water main to and including

the curb-stop and "buffalo box;" (ix) eleven fire hydrants; and (x) interests in real estate, including a fee parcel for the Treatment Facilities and easements for the wells, water mains and water service lines.

Q. Has Aqua Illinois taken steps to ensure that the construction of the facilities is adequate and efficient?

A. Yes. Pursuant to the Agreement, Concord is required to construct the water system in a workmanlike manner in accordance with all applicable permits and approvals, the Plans, and all specifications and guidelines referenced in the Agreement, including the Construction Guidelines attached to the Agreement as Attachment 4. Aqua Illinois has the right to conduct inspections of the design and observe the construction of the system to ensure compliance with these requirements.

Q. Have any other steps been taken to ensure adequate and reliable construction?

A. Yes. Concord is required to obtain manufacturers' warranties for all purchased equipment and components of at least one (1) year from the date of installation.

Q. How will permitting for the construction of the system be obtained?

A. Concord is required to obtain all permits and approvals necessary to construct the system.

Q. Please discuss Aqua Illinois' ability to operate and maintain a water system in the Area.

A. Aqua Illinois has the technical, financial and managerial ability to operate and maintain a public water supply and distribution system for the Ravenna Development.

ACQUISITION COSTS

Q. What costs will Aqua Illinois incur to purchase the water system?

A. Aqua Illinois will incur a purchase price of two-hundred five-thousand dollars \$205,000.00. Aqua Illinois will incur additional costs for plan review, construction

inspection, additional construction costs, obtaining and installing water service meters as homes are constructed, closings on transfers of title and applicable realty transfer taxes, of which Aqua Illinois is required to pay 50%. Aqua Illinois estimates these additional costs, not including future costs to obtain and install meters, will be approximately \$75,000.00. The total estimated cost of purchased facilities plus these additional costs is \$280,000.00.

Q. Is Aqua Illinois capable of financing the acquisition of the water system without adverse financial consequences?

A. Yes. The provision of public water service in the Ravenna Development will impose no financial burden on either Aqua Illinois or its existing customers. In fact, existing customers would benefit from the growth of the Aqua Illinois system as common costs are spread over a larger customer base.

ACCOUNTING ENTRIES

Q. Please discuss the accounting entries that Aqua Illinois believes are appropriate for the facilities acquired to serve the Area.

A. Aqua Illinois is the entity that will first devote the Water System for the Area to public service because Aqua Illinois is purchasing the Water System from Concord prior to any use in providing service. Thus, in accordance with Commission policy and the Uniform System of Accounts, 83 Ill. Admin. Code Part 605, Accounting Instruction 17, Aqua Illinois proposes to record the original cost of the water facilities for the Area in the applicable plant accounts. The original cost for the facilities is Aqua Illinois' purchase price, 83 Ill. Admin. Code Part 605, Accounting Instruction 18, plus the cost Aqua Illinois incurs for plan review, construction inspection, additional construction costs,

obtaining and installing water service meters as homes are constructed, closing on transfers of title and applicable realty transfer taxes.

Q. Has Aqua Illinois set forth specifically the accounting entries it proposes?

A. Yes. Exhibit D to the Petition shows the appropriate accounting entries to record the original cost of water facilities as of the time that water service is first provided to customers in the Ravenna Development.

APPLICATION OF RATES

Q. Has Aqua Illinois proposed rates for water service for the Area?

A. Yes. Pursuant to the Agreement, the initial charge for water service, subject to Commission approval, is required to be \$45 per month. For the period of initial development and extension of service within the Ravenna Development, it is not possible to know with reasonable certainty the number of customers that will be served during any given year or the applicable cost of service. For a five year period, the Company proposes to adopt a fixed customer charge, consumptive rates and a fire protection rate that would result in charges of approximately \$45 per month per residence based on 7,000 gallons of water per month usage. The Company's proposed water rates are set forth in Exhibit E to the Petition.

Q. Would the proposed rates provide an excessive rate of return on Aqua's investment in useful plant?

A. No. Forecasted operating income statements and rate base levels for the Area for the periods ended December 31, 2005 and December 31, 2009, are shown in TJB Exhibit D-1.1. The forecasted levels of revenues shown reflect use of the Company's proposed water rates. If the proposed water rates are charged within the area, the resulting projected rate of return on rate base is negative for 2005 and comparable to the rate of

return allowed by the Commission in the Company's last rate proceeding, Docket No. 03-0403, for 2009. The proposed rates, therefore, are not in excess of reasonable rates.

Q. What depreciation rates should be used in serving the Ravenna Development?

A. The level of depreciation expense reflected as an operating expense should be based on application of the present water depreciation rates for the Company's Kankakee Water Division, which the Commission evaluated in the Division's 2000 rate case. The result of using the approved depreciation rates for the Company's Kankakee Division is approximated in TJB Exhibit D-1.1.

Q. Has the Company proposed tariff pages for the area?

A. Yes. Aqua Illinois proposes to file tariff pages for the area that are substantially in the form of Exhibit F to the Petition.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.